

So What Does The World Bank Do, Anyway?

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WORLD BANK

As many have heard by now, the leaders of the so-called BRICS nations - Brazil, India, China, Russia and South Africa - used the occasion of the 6th BRICS Summit in Brasilia, Brazil to announce the creation of the long-awaited BRICS Development Bank. Formally the "[New Development Bank](#)," it will be based in Shanghai and capitalized with an initial \$10 billion in cash (\$2 billion from each of the five founding members) and \$40 billion in guarantees, to be built up to a total of \$100 billion.

Immediately, the press began touting the new bank as a potential rival to the current IMF / World Bank system of infrastructure development and poverty reduction in the third world. "[BRICS Development Bank Could Challenge World Bank and IMF](#)" touts US News & World Report. "[BRICS Ink \\$50 Billion Lender in World Bank, IMF Challenge](#)" asserts Bloomberg. The World Bank, for its part, is downplaying the rivalry, with World Bank President Jim Young Kim [openly welcoming the bank](#) at a recent meeting with Indian Prime Minister Narendra Modi. "The only competition we have is with poverty," he told reporters at the meeting.

But all of this talk about a potential rival to the IMF and World Bank have exposed the general public's ignorance about what exactly these institutions are and what they do. While most are familiar with the

IMF and its predatory lending practices (and those who aren't are encouraged to acquaint themselves with the "[IMF riot](#)" strategy that was developed in the third world and is now being imported to Europe), the World Bank is less scrutinized and less well understood. What is it, what does it do, and why is it important for the BRICS to challenge its hegemony in the development and poverty reduction arenas?

For the answer to that, we'll need to examine the World Bank's history, both the official history that it touts to the outside world and the real history of its part in plundering the developing world that it is supposedly there to help.

The Official Story



The World Bank was born along with the IMF at the 1944 Bretton Woods conference that decided on the financial architecture of the post-WWII world, only at that time it was known as the "International Bank for Reconstruction and Development" and was concerned primarily with post-war reconstruction of Europe. After the implementation of the Marshall Plan in 1947, however, its focus shifted to the non-European world where it provided development loans targeted at helping developing countries create income-generating infrastructure (power plants, seaports, highways, etc.).

From the very beginning there have been [questions](#) about the overlap of the IMF and World Bank's respective roles.

Both are committed, according to the IMF website, to "raising living standards in their member countries," but the IMF is financial in nature, concentrating on short and medium-term loans to help countries meet balance of payment needs, while the World Bank is fundamentally a development institution, focusing on technical and financial support for specific projects or sectoral reforms. Part of the confusion is linguistic; at the first ever meeting of the IMF the "father" of Bretton Woods, John Maynard Keynes (who else?), confessed he thought the Fund should be called a bank and the Bank should be called a fund. Nevertheless, the monikers have stuck and the World Bank and IMF continue to talk the talk of global infrastructure development and poverty reduction.

Since the World Bank pivoted away from Europe to concentrate on the developing world in the late 1940s, it has lent more than \$330 billion on infrastructure development projects. It currently boasts \$232.8 billion in total subscribed capital, overseeing \$358.9 billion in total assets. The World Bank concentrates its lending on creditworthy governments of developing nations, and splits its lending activities between the [International Bank for Reconstruction and Development](#) (IBRD) and the [International Development Association](#) (IDA). The IBRD generally provides 12-15 year loans at slightly above market rates to countries with per capita GDPs above \$1305. The IDA, meanwhile, provides interest-free 35 to 40 year loans to countries with per capita GDPs below the \$1305 mark.

Unlike the IMF, which is funded by quota subscriptions from member countries, the World Bank finances its lending by borrowing on the international bond market. As a result, for the first decades of its existence the World Bank was concerned with building up its reputation as a lender and establishing its own creditworthiness. Until 1968, the Bank was a relatively small institution with less than 1000

employees concentrated in Washington that concerned itself almost exclusively with loans designed to finance transportation and energy infrastructure projects.

When JFK/LBJ Secretary of Defense and unconvicted war criminal Robert McNamara took over as president in 1968, however, he began a radical repositioning of the Bank and transformation of its aim, scope and practices. Over his 12 years at the helm of the Bank, McNamara greatly expanded its lending activities, shifting the aim of that lending toward agricultural reform and literacy initiatives, as well as the building of schools and hospitals. During this period the Bank's treasurer, Eugene Rotberg, increased the Bank's capital by going beyond the established developed world banks that had been its primary funding source and tapping into the global bond market. In the 1980s the bank began to press so-called "[Structural Adjustment Programs](#)" on loan recipients, including mandates to devalue currencies or reduce government spending in various areas, as pre-conditions for lending. The Bank also began providing lending to help governments service the debts they had racked up in previous rounds of lending.



After the Bank came under increasing scrutiny (and protest) in the 1990s and early 2000s, it has adjusted its policies and practices to address its critics. It now touts environmental responsibility in the infrastructure projects it provides loans for and places greater emphasis on the goal of promoting economic engagement by the poorest people in its target countries. As a result, the World Bank now claims to focus on the eradication of hunger, gender equality, environmental sustainability, maternal health and child mortality, communicable disease prevention, and universal primary education in its target countries.

The Real Story

As readers of these pages will no doubt be aware, there is of course more to the story than that glossy, PR-friendly official story would have us believe. The period of McNamara's stewardship from [1968-1980](#) was instrumental in shaping the institution that we know (or should know) today: a tool of the Washington power players that is used as a way of transferring the productive wealth of the third world back to the first world. The larger capital that was raised during his tenure was used to expand the bank's lending activities, and those expanded loans kicked off the era of the third world debt crisis, including a period from 1976 to 1980 where developing world debt rose on average 20% per year.

As journalist John Pilger noted in his powerful documentary, "[War By Other Means](#)," released back in 1991:

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"Remember Live Aid in 1985, that symbol of concern and generosity? Did you know that during that year, the hungriest countries in Africa gave twice as much money to us in the developed world as we gave to them? There was another famine last year. Perhaps you are one of those who took part in Red Nose Day. Did you know that before that day was over, the equivalent of all the money that comic relief had raised in Britain, about 12 million pounds, had come back to the rich countries? For every day this amount is given by the poorest to the rich on interest payments on loans that most of them never asked for or knew existed. In other words,

contrary to a myth long popular in the West, it has been the poor of the world who have financed the rich, not the other way around."

The process by which these loans are made and the funds distributed to their recipients has long been rife with waste, corruption and fraud. Even in the best circumstances, the types of projects that the Bank concerned itself with in its early days, infrastructure projects focusing on energy and transportation, served to primarily enrich those who were already the richest in the target countries, the friends and cronies of the corrupt rulers whose business interests could make use of such innovations. At its worst, the Bank has been used to underpin the rule of corrupt and tyrannical leaders and force entire nations into debt slavery.

This process was described most famously by former insider and self-described "economic hitman" John Perkins, who wrote his "[Confessions of an Economic Hitman](#)" to shed light on the means by which the seemingly benevolent IMF/World Bank system is used to oppress and plunder the very populations it is designed to enrich.

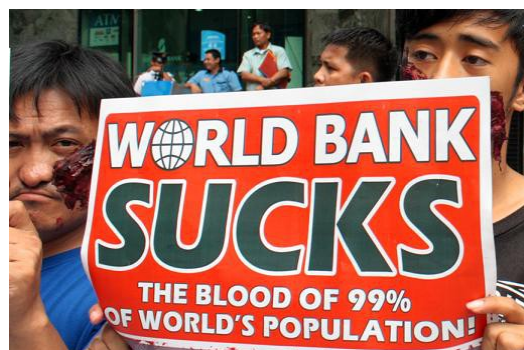
[According to Perkins:](#)

"So how does the system work? We economic hitmen have many vehicles to make this happen, but perhaps the most common one is that we will identify a country-usually a developing country-that has resources our corporations covet, like oil, and then we arrange a huge loan to that country from the World Bank or one of its sister organizations.

"Now most everybody in our country believes that loan is going to help poor people. It isn't. Most of the money never goes to the country. In fact it goes to our own corporations. It goes to the Bechtels and the Halliburtons and the ones we all hear about, usually led by engineering firms, but a lot of other companies are brought in and they make fortunes off building the infrastructure projects in that country. Power plants, industrial parks, ports, those types of things. Things that don't benefit the poor people at all; they're not connected to the electrical grid, they don't get the jobs in the industrial parks because they're not educated enough. But they as a class are left holding a huge debt. The country goes deep into debt in order to make this happen, and a few of its wealthy people get very rich in the process. They own the big industries that do benefit from the ports and the highways and the industrial parks and the electricity.

"The country is left holding this huge debt that it can't possibly repay, so at some point we economic hitmen go back in and we say, 'You know, you can't pay your debts. You owe us a pound of flesh, you owe us a big favor. So sell your oil real cheap to our oil companies, or vote with us on the next critical United Nations vote, or send troops in support of our to some place in the world like Iraq.' And so we use this whole process as, first of all, a means for getting their money (money we loan them) to enrich our own corporations, and then to use the debt to enslave them."

In his book, "[The Globalization of Poverty and the New World Order](#)," Professor Michel Chossudovsky of the University of Ottawa provides extensive documentation of precisely how this process has functioned over the years through the Structural Adjustment Loan and Sector Adjustment Loan programs at the World Bank's disposal. This documentation includes details of the Bank's oversight of the build-up of Rwanda's military budget in the run-up to



its bloody internal war of 1994, the Bank's own admission of how its loan-dictated deregulation of Vietnam's grain market led to widespread child malnutrition in the country, and the World Bank's contribution (in conjunction with the IMF) to the unprecedented plundering of Russia that took place in the wake of the Soviet collapse.

The World Bank, despite its friendly exterior and the lofty platitudes its proponents spout in its defense, continues to undergird a system of exploitation and debt enslavement of developing countries. For half a century, the Bank has been responsible for the furtherance of a Pax Americana built not upon peace, prosperity and free trade but violence, debt and enforced servitude.

The Rest of the Story

...But now along comes the New Development Bank promising an alternative to the World Bank hegemony. Unlike the Structural Adjustment Loan regime of the World Bank, the NDB is promising to provide loans with no strings attached; the BRICS have no interest in telling loan recipients how to run their country.

Is this a fundamental challenge to the system as it exists? Is the NDB likely to live up to the lofty expectations that have been placed on it? In what time frame can we expect to see the changes to the international order take place?

The answer to these questions constitute what Paul Harvey would call in his trademark drawl, "the rest of the story..." and we will explore that story here next week.

Meet The BRICS' New Development Bank

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Last week we attempted to dispel some of the confusion surrounding the World Bank and the IMF, how the two are differentiated, and what the World Bank actually does.

As you'll recall, Bretton Woods architect John Maynard Keynes admitted that the confusion over the bodies was embedded in their names; the World Bank should rightly be referred to as a fund (for development projects) and the International Monetary Fund as a bank (to help countries cover balance of payment deficits and ensure financial stability). The World Bank itself is a body that ostensibly provides long-term low interest or no interest loans secured on the global bond market to fund sectoral reforms and infrastructure



ZHANG CHENGLIANG / CHINA DAILY

development projects in some of the poorest countries in the world.

As we saw last week, however, the Bank is used as a weapon by the [economic hitmen](#) identified by John Perkins and others, directing infrastructure development funds to crony corporations and forcing countries into debt obligations that they will be unable to meet. These impossible debt obligations are then used to give the Bank leverage over the developing world economically and geopolitically. What's more, both the IMF and the World Bank have historically been controlled by the US and Europe, and clamors for reform in governance from the developing countries have fallen on deaf ears.

It is in the context of this IMF/World Bank stranglehold over the global financial architecture that we have to understand the stunning development that took place at the 6th BRICS (Brazil, Russia, India, China, South Africa) Summit in Fortaleza, Brazil last month: the creation of a New Development Bank (NDB) to compete with the World Bank in providing funds for infrastructure development to developing nations and the creation of a Contingency Reserve Arrangement (CRA) to compete with the IMF in providing liquidity protection to countries with balance of payment difficulties.

The development was by no means surprising: the idea for a BRICS development bank has been bandied about for years now and was written about in the pages of this newsletter extensively last year. Nor does it represent (at least at this point) a fundamental challenge to the World Bank or IMF's dominance; neither the NDB's \$50 billion USD in subscribed capital nor the CRA's \$100 billion liquidity pool come close to the World Bank's [\\$232.8 billion](#) in subscribed capital or the IMF's [\\$755 billion](#) in liquidity ([\\$1.4 trillion](#) if you include emergency funds). Neither do they have the infrastructure yet in place to coordinate and deploy these funds, nor a track record of working with the world's poorest countries to ensure that funds reach their intended targets and not the Swiss bank accounts of corrupt politicians and middlemen.



Still, there is something of a revolutionary feel to the obligatory pictures of the smiling BRICS leaders coming out of this year's summit. This year the smiles do not seem quite as forced. Perhaps they even seem a little self-assured. It may be a baby step, but after all it is a step toward a world where the poorest countries do not have to turn cap in hand to the IMF or World Bank for financial aid.

But what are the implications of this for the developing countries themselves and the prospect of genuine development? What does this development say about the BRICS and their growing ambition on the world geopolitical stage? And where does this fit into the age-old banker quest for global government? To answer these questions, we must first examine the institutions in question.

The Basics

Under the terms of [the Agreement](#) signed by the BRICS leaders at Fortaleza, the New Development Bank's mandate is to "mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries." To accomplish this goal they will "support public or private projects through loans, guarantees, equity participation and other financial instruments." The initial subscribed capital of \$50 billion will come from initial payments of \$10 billion from each of the five BRICS members. Total authorized capital of the Bank will be \$100 billion.

Membership of the bank will be open to all members of the United Nations and each members' voting power will be equal to its subscribed shares in the Bank's capital stock. The Bank will be headquartered in Shanghai and its governance will consist of a Board of Governors, a Board of Directors and a President.

The [Contingent Reserve Arrangement](#), meanwhile, "is a framework for the provision of support through liquidity and precautionary instruments in response to actual or potential short-term balance of payments pressures." Its initial \$100 billion in committed resources will come in tranches: 41% from China, 18% each from Russia, India and Brazil, and 5% from South Africa. Governance of the CRA will consist of a Governing Council including one Governor and one Alternate Governor appointed by each of the five parties and a Standing Committee consisting of one Director and one Alternate Director appointed by each party. The Arrangement's two main instruments will be a liquidity instrument for providing funds in response to balance of payment problems and a precautionary instrument for permitting access to funds ahead of anticipated balance of payment problems.

A Global Power Struggle?

So what does this all mean? Is this the first salvo in the long-expected economic war between the developed world and the developing world? Does the creation of the NDB and the CRA mark the rise of the BRICS as a force on the world stage? Does it threaten the existing IMF/World Bank empire?

The agreements for both the NDB and the CRA take pains to point out that they are meant as a "complement [to] existing international monetary and financial arrangements" rather than as competition to them. And the World Bank has [formally welcomed](#) the announcement of the NDB, with World Bank President Jim Young Kim telling reporters at a recent press conference with Indian Prime Minister Modi "The only competition we have is with poverty" and "Any bank or any group of institutions that try to tackle the problem of infrastructure investment to fight poverty, we welcome."



But behind the polite words and 'we're all working toward the same goal' rhetoric is the cold fact that the developing world has been increasingly vocal about their interest in World Bank reform in recent years and specific complaints from the BRICS nations themselves over the strings that are inevitably attached to World Bank lending. It is also perhaps significant that all of the BRICS nations except China will be paying more into their capitalization of the NDB than they do to the World Bank.

Although much talk has been made about how the BRICS are attempting to subvert the dollar's hegemony as the world reserve currency, that is not the case with these institutions, at least not at this point. All of the capitalization payments and fund commitments in the agreements for the NDB and CRA are explicitly denominated in "the official currency of payment of the United States of America."

The main competition that many are expecting from the NDB as opposed to the World Bank is that there are expected to be far fewer (if any) conditionalities attached to NDB lending. As we saw last week the Structural Adjustment Programs of the IMF and World Bank require a whole series of political and economic reforms dictated by Washington and its cronies before developing countries can qualify for development funds. Now members of globalist institutions like Matt Ferchen of the

Carnegie Tsinghua Center for Global Policy are [openly fretting](#) about the possibility that NDB funding will undermine this structure: "China has this rhetoric in terms of its foreign policy and especially as it relates to China's engagement with other developing countries, that China won't interfere in other countries' domestic politics, that China respects the domestic, economic and political systems of other countries, in a way that they want to be seen as different from the World Bank, the IMF, or countries like the United States."

For those who understand that the IMF/World Bank system is and has been used to subjugate debtor nations and impose the will of the Western powers on those countries, this seems like a potentially transformative moment. Could it be that the BRICS nations are creating a global institution that will truly undermine the Washington consensus stranglehold over the global south? Are the BRICS creating a global institution we can get behind? Should we be happy about this potential NDB/CRA revolution?

'Good' Globalization vs. 'Bad' Globalization



Like with so many other situations, we must be careful not to fall into the trap of believing that the only alternatives that are being presented to us are the only alternatives that are possible. In this case, it seems that we are being presented with the choice between supporting a development paradigm led by the 'bad' globalists of the IMF/World Bank crowd that seek to control other countries through financing and the 'good' globalists who are selflessly looking to spur development for the good of humanity. This is just such a false choice.

First, the underlying assumption that the BRICS countries are doing what they're doing out of some selfless love of humanity needs to be confronted head on. The BRICS countries in general, and China in particular (which is the strongest proponent of the anti-interventionist stance), have much to gain by offering no strings development loans. This was made clear by Gaddafi when he made the argument that China would beat out the US for control over Africa because it's non-interventionist foreign policy was better at winning Africans hearts and minds. China is interested in securing African resources. It cannot challenge the US directly at its leverage-and-threats approach to gaining control of those resources, so it plays the good cop in the good cop / bad cop game. This allows it to create deep (and lucrative) ties with precisely those nations, such as Sudan, that the US is most interested in 'reforming.' It may be a mutually beneficial relationship, but let's not kid ourselves that China is interested in building up Sudanese infrastructure out of sheer goodwill. Did China finance the construction of a [\\$1.3 billion railway](#) from Khartoum to Port Sudan because they care about Africans or because they care about establishing the infrastructure to service their [2 million ton oil terminal](#) in the port?

Secondly, the idea that the BRICS are creating a 'good' globalist institution rests on the further assumption that, even if the current batch of BRICS leaders are benevolent and altruistic, that the next batch (or the one after that...) will be as well. The World Bank, too, started out as a humble institution making very limited loans for very specific projects. It wasn't until Robert McNamara took the reins of the Bank in 1968 that it started to take on the characteristics that we recognize today. Similarly who is to say that the BRICS leaders (or their successors) won't allow the potential power of being a global financing body go to their heads? Why should we trust that any sprawling globalist institution will act

always and forever in the interests of the greater good?

No, the 'good' globalization / 'bad' globalization here seems like a ruse to further globalization. Whether the world comes to accept a greater reliance on and submission of sovereignty to globalist institutions led by the West or institutions led by the BRICS countries does not seem to be a genuine choice.

So what are the alternatives? Surely it is important to build up the infrastructure of the developing countries, isn't it? Surely this can't be accomplished without the massive resources of a World Bank or a New Development Bank, can it?

It should first of all be noted that the urge to assume that developing nations cannot possibly find solutions to their own infrastructure and development problems without the aid of the rich global power players is not only paternalistic and patronizing, but contra-indicated by the evidence at hand. What, precisely, has the last 50 years of World Bank/IMF intervention and "aid" to the developing world achieved, exactly? Is Argentina in a better position than it was before IMF intervention, or a worse one? Has sub-Saharan Africa improved its political and economic clout on the world stage as a result of its World Bank financing, or become even more subservient to the countries that have provided it those loans? Are the success stories of economies that have risen out of poverty like South Korea because of or despite IMF/World Bank meddling? The answers to these questions, all easily enough documentable, speak for themselves.

Also, it shows a profound lack of imagination to believe that funding can only come through mega-grants delivered by bodies with hundreds of billions of dollars at their disposal. In recent decades the concept of microcredit has transformed our understanding of what is possible in terms of funding business and enterprise in the developing world, and it is currently challenging assumptions that infrastructure like affordable housing and sanitation systems can only be provided by the "grant aid lottery" of the World Bank (or NDB). Local communities know best what local needs are and how local manpower, resources and services can be organized to meet those needs. Granting bodies in Washington or Shanghai cannot possibly be expected to have that type of knowledge, or expect that throwing dollars at these problems will achieve the same results as providing small-scale, goal driven aid for specific local projects created and run by local community organizations.

It is not a question of 'good' global banks vs. 'bad' global banks. It is global banks versus the people, as it always has been, and when we understand the situation from that perspective the sheen comes off of the ballyhoo surrounding the New Development Bank.

Whither the NDB?

Before anyone gets too carried away with speculation about the NDB and the CRA and their likely role on the world stage, it would be good to conduct a brief reality check. There was another announcement of another alternative development bank just a few short years ago that received a similar amount of coverage and hoopla at the time that turned out to be all talk and no action. Remember the [Bank of the South](#)? Neither do most of the people who wrote about it at the time, and yet it seemed like a major development when it occurred.





That the BRICS are serious about following through with the NDB and the CRA is not in doubt, but that they can keep these organizations together and working toward a unified vision is very much doubtful at this moment. Internal divisions within the BRICS delayed the creation of the bank for years and even now tensions continue between the members. Brazil and China, for example, remain locked in disputes over China's economic relation to the South American country; Brazil accuses the rising dragon of plundering their resources and dumping cheap manufactured goods on the country in return. China and India have also butted heads over control of the NDB's policies and vision, and there is ongoing concern about whether South Africa will be able to live up to its financial obligations in these institutions.

All of this being said, the bank is hoping to make its first loan in 2016. When that happens, there will be no doubt that we will be living in a different world. The question is whether it will be a better one.

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